



Corporate Services Scrutiny Panel

Quarterly Hearing

Witness: The Minister for Treasury and Resources

Tuesday, 5th April 2022

Panel:

Deputy S.M. Ahier of St. Helier (Vice-Chair)

Senator S.W. Pallett

Senator T.A. Vallois

Witnesses:

Deputy S.J. Pinel of St. Clement, The Minister for Treasury and Resources

Deputy L.B.E. Ash of St. Clement, Assistant Minister for Treasury and Resources

Mr. R. Bell, Treasurer of the States

Mr. R. Summersgill, Comptroller of Revenue

Mr. A. Hacquoil, Group Director, Strategic Finance

Mr. P. Ashley, Head of Cost Benefit Analysis and Investment Appraisal

[9:02]

Deputy S.M. Ahier, of St. Helier (Vice-Chair):

Good morning, everybody, and welcome to this hearing of the Corporate Services Scrutiny Panel with the Minister for Treasury and Resources. Normal hearing standards apply. The hearing will be recorded and transcribed. If we run out of time we will forward some questions to you, Minister, and hopefully you can respond later to them. Now we will introduce ourselves. My name is Steve Ahier, I am the vice-chair of the Corporate Services Scrutiny Panel.

Senator T.A. Vallois:

Senator Tracey Vallois, member of the panel.

The Minister for Treasury and Resources:

Susie Pinel, Minister for Treasury and Resources.

Assistant Minister for Treasury and Resources:

Lindsay Ash, Assistant Minister for Treasury and Resources.

Treasurer of the States:

Richard Bell, Treasurer.

Group Director, Strategic Finance:

Andy Hacquoil, group director of Strategic Finance.

Head of Cost Benefit Analysis and Investment Appraisal:

Phil Ashley, head of investment appraisal.

Deputy S.M. Ahier:

Thank you very much. We will be joined shortly by Senator Pallett, who is also a member of the panel. We will start, Minister, with inflation and the cost of living. Many economists are predicting inflation in the U.K. (United Kingdom) to reach 7 per cent this year. An increase in inflation was predicted by the Fiscal Policy Panel. Will you be taking any financial action to mitigate against the cost-of-living increases, which will be experienced by Islanders?

The Minister for Treasury and Resources:

Obviously we do not set our own inflation rate. It is forced on us really by the U.K. It was 2.9 at the end of 2021 and the Fiscal Policy Panel estimate that it could go up to about 5.6. What we have done throughout this COVID situation, and of course the increase in inflation is largely based on the effects of the pandemic, has been huge but we will come on to that later. What we are doing as a Government has already been announced in the States; the Minister for Social Security is putting out £20 per person per month to help with the increase in costs, so inflation. We are still looking at all sorts of alternatives that we could do, several of which have been put forward by the Consumer Council but, as we have said before, and I am sure it will come up again, that there are various ways that they have suggested. Energy prices are set to rise and we do not have the same effect from the cost of energy as the U.K. does. The cost of fuel of course is also a fuel duty set to rise but we do not have the extreme lengths of driving that the U.K. does. There are all sorts of factors that are certainly not being ignored but we have to work out which is the best way, bearing in mind anything we do is taxpayers' money, that it is fair across the board.

Deputy S.M. Ahier:

Will any of these possible policies be implemented before the States goes on purdah?

The Minister for Treasury and Resources:

The chair of the Scrutiny Panel, Senator Moore, put forward a community cost bonus rise, which we have meetings about it. Her suggestion was not targeted, which is our main concern, because you cannot give more money or less inflation or whatever to people on 6-figure salaries. It has to be targeted, which is our problem. But also it could not be effected until October so that is why the Minister for Social Security put forward the proposal, which the Assembly agreed, of £20 per person per month immediately effective. We cannot increase the community cost bonus because that is based on the previous year's tax return. So I do not know if the Comptroller wants to elaborate on that. But that is not available until October. We have agreed that between Social Security and Treasury we will put together a project team who will look at how we can effect that but it will be based on 2021 tax returns because that is the only way we can establish who needs it and who does not.

Deputy S.M. Ahier:

Obviously the community cost bonus does affect the low-income families, are there any other available policies that you could implement to alleviate the pressure of inflation on the low-income families specifically?

The Minister for Treasury and Resources:

The community cost bonus was introduced to help the people who are just outside the income support level. The tax threshold is £16,500 but when it was introduced ... G.S.T. (goods and services tax) was introduced, of course the tax threshold was less. So people who were just above that, so paying tax but not below the tax threshold, so not on any income support level, that is why it was introduced in the first place. That is what it is still doing to help with the cost of G.S.T. on food and on heating as well. That is there to help that bracket of people that just pay tax.

Senator T.A. Vallois:

Can I just follow up on the project team that you referred to? Who will consist of that project team? Will there be members of Treasury and Social Security and I assume some economist or economic expertise?

The Minister for Treasury and Resources:

Yes, it was only decided last week when Senator Moore withdrew her proposition that we would do this, having had meetings with her the day before. Obviously we have not had time to set up a team yet. But it will be a combination of the 2 departments.

Senator T.A. Vallois:

Just in terms of the comparability, I mean you referred to the differentials between things like energy costs and the inflation differences between the U.K. and Jersey; a lot of people refer to the U.K. automatically with the new cycle that goes round. How will you communicate those differences to assure people that there is that differential and that there is assistance that can be provided, whether that is just the system that the Minister for Social Security referred to last week or anything that comes through the project team that is going to be set up?

The Minister for Treasury and Resources:

That is why the project team is being set up and of course there will be economic advice on that. That will be started now so that it is well in train by the time the next Council of Ministers come into place, and they will be tasked with seeing it through to then lodge something - quite what, I do not know. It is down to them to come up with it - in September to be debated ... lodged in August, to be debated in September so it will come into effect in October when the community cost bonus is purely for that reason given out.

Assistant Minister for Treasury and Resources:

Can I just add too, it is a good point about the difference between the U.K. and Jersey in certain elements? Obviously at the moment with the fuel situation we are not in quite the same situation because we do not have the reliance on gas that the U.K. have and that is often where it is being pushed up, with a lot of oil heating and electric. The J.E.C. (Jersey Electricity Company) hedged a lot of their things going forward, so for the moment they can keep prices reasonable. What I would say - and I think it is important to know - we are coming into the summer so people are not going to be - touch wood, if we get a decent summer - using so much heating. So that is a good time for this to happen. I do feel that the next Assembly, when it convenes as we move into winter if fuel costs continue to rise, there will have to be a look at how we can help people at the lower end with some sort of fuel subsidy. But we are not in that situation at the moment. But going forward, if things do not alter, if things in the Ukraine stay awkward, then it will be something that the next Assembly will have to look at.

Deputy S.M. Ahier:

Would you consider a reduction in goods and services tax to help alleviate those on lower incomes?

The Minister for Treasury and Resources:

We have had these considerations before and the fact that the G.S.T. is so low that personally, and from a Treasury point of view, and I hope the Comptroller will agree, no.

Deputy S.M. Ahier:

Would you consider a short period of respite from G.S.T., say a 3-month period where you would remove G.S.T.?

The Minister for Treasury and Resources:

G.S.T. is a very fair tax. It applies to absolutely everybody so you could not remove it for lower income people and still keep it because how would you ever do it? We have looked into this. I am not talking off the top of my head. To do it would be quite controversial anyway. If it was 20 per cent, like the U.K., then it might be a consideration but the fact that it is 5 per cent what would you reduce it to? Then the cost to wholesale and retailers would be exorbitant. They would have to change all their till reckoning. It is not a practical solution. It is certainly not something that could be done for a short period of time.

Senator T.A. Vallois:

Can I just follow up on the G.S.T.? The last time we had some form of economic shock, so the financial crisis, not long after that there was a requirement to increase G.S.T. from 3 per cent to 5 per cent. Is there a risk or is there a consideration that that might be seen going forward because the economic shock we are talking about is roughly 2 years? So the risks being considered around the tax broad base that we have - well we do not have a broad base of tax, I think that is one of the issues - but would that be one of the ultimate considerations increasing G.S.T. again?

The Minister for Treasury and Resources:

It is always on the cards. It is a flexible issue. We could always increase it. I do not think it would be a very popular move and, at the moment, the 5 per cent works and it is consistent but there is, yes, of course, always the option in the future of increasing it. It is not on the cards any time soon.

Deputy S.M. Ahier:

The independent Joseph Rowntree Foundation has recently highlighted that inaction in increasing benefits in line with current inflation levels in the U.K. will put around 600,000 people, a quarter of which are children, into poverty. Are you aware of how many Islanders and children could be pulled into poverty as a result of increases in the cost of living?

The Minister for Treasury and Resources:

Poverty, in my view, is a dangerous word because how does one define poverty? We have such a very strong and, I think, all-encompassing income support scheme. That has always been very excellent I think in catering for people in need and covers everybody. I do not know how one would define poverty when you have that sort of system which is far more generous and flexible than any other system that we have ever come across.

[9:15]

I do not know how, in your question, you would define poverty.

Senator T.A. Vallois:

Can I just follow up? Would you consider then on that basis, I would assume we are talking about relative poverty?

The Minister for Treasury and Resources:

Relative low income.

Senator T.A. Vallois:

I suppose it is difficult because we are towards the end of the term but would there be any consideration around having something like the Joseph Rowntree Foundation doing an independent assessment of Jersey's position with regard to relative poverty?

Assistant Minister for Treasury and Resources:

I think there probably is a case for that, as you say, going forward. We probably would not do it this term but probably will going forward. I think the advantage we have in Jersey, and we overlook it too often, is that we are small and we should be able to be nimble. I think we have been here, where we have moved quite quickly to put in something in place to help people at the lower end. I think the same thing should go to people with relative poverty. If it is definitely identifiable which it may well be by, as you said, the Joseph Rowntree Foundation, we should be in a position to act very quickly. It is not like the U.K. where their benefit system is ... it is good but it is quite unwieldy and it comes in various different segments and forms. Ours is actually, as Susie said, quite well-structured. It operates well. We can move quickly, as we have here, to move people up and down. I would hope if we did have that sort of report, and it did say there was a need, we could move quickly to a target where that needed, without putting a blanket cost right across the Island, as you mentioned G.S.T. Whether that helps ... just coming back to that, if you say do that to help society the person who is going to benefit most of course is someone going up to ... I will not name their garage, near St. Peter's, and buying a car for £150,000 they benefit greatly if you take 5 per cent off. If someone buys a packet of Polo mints they do not really. I think it is a great point and if we did get someone in to look at it, hopefully we are a nimble enough jurisdiction that we can move quickly to alleviate the situation.

Treasurer of the States:

Could I just return back to the question in terms of supporting those on low incomes? Of course that is what the Minister for Social Security's measure does in terms of £20 per person in a house who

is on income support, those qualifying benefits just above that. The intention then being, although it will be for the Council of Ministers in the next Assembly obviously to uprate income support and those benefits in autumn or Q4 next year, and then those are usually operated by either average earnings or R.P.I. (retail price index), whichever is higher, therefore that step up would then be in income support itself for next year.

Deputy S.M. Ahier:

As well as higher inflation, will a household budget be squeezed further by any changes to taxes in the coming months?

The Minister for Treasury and Resources:

Changes to taxes?

Deputy S.M. Ahier:

Are you intending to make any changes to any taxes that might affect people?

The Minister for Treasury and Resources:

No. The only changes to tax that would have an effect, which has been well-broadcast and everybody has been informed, is the move to independent taxation over a period of 3 years. So it is not going to be a rush but there is a big compensation scheme in place for the ... I think it was 1,300 people that might be adversely affected by that, but that has been well-publicised. So there is a compensation scheme for that. There are changes to the tax system long overdue but people will be compensated if they suffer financially through that.

Deputy S.M. Ahier:

The Bank of England has recently raised interest rates to 0.75 per cent, their highest rate since 2020. There was some suggestion that this could reach 3.5 per cent. How could this impact upon public finances?

The Minister for Treasury and Resources:

At the moment we only have, I think, off the top of my head, £250 million worth of borrowing, which is at a set rate. Future borrowing has already been agreed in some cases but it will be long-term borrowing and hence at another fixed rate. So rises in interest rates will not affect that unduly. Of course rises in interest rates will benefit our long-term quite large reserves.

Deputy S.M. Ahier:

We will come back to borrowing later on.

Treasurer of the States:

Can I perhaps supplement that, Minister? Interest rates from a tax perspective, first order, if you like, the primary fact is likely to be increased profitability of financial services or to the banks, so that would lead to an increase in taxation further down the line; that is always a year in arrears. I think one of the biggest questions on a tax will be in respect of whether R.P.I. is followed by large increases in average earnings. Increases in average earnings would benefit Treasury although you would expect that the next Council of Ministers will consider increases in personal allowances also, so that will be an impact obviously from G.S.T. while G.S.T. is low. To the point there, in an environment where G.S.T. is much higher, then obviously there is much greater money coming into the Treasury but there will nevertheless be money coming in. There may be something but we will obviously, and have been in fact, be briefing people on the financial position in the next 2 days from last year. Probably the only area of taxation that would not be affected would be alcohol duties; the duties are levied on volumes, they are not levied on price. From a spend perspective, however, inflation will, I am sure, be high on the list in respect of the considerations in future pay awards and in terms of inflation for goods and services that the Government ... we are going through the numbers now, having got the latest forecast from the F.P.P. (Fiscal Policy Panel) last week and we will work that into a new forecast for the next Council of Ministers.

Deputy S.M. Ahier:

Thank you.

Senator S.W. Pallett:

You mentioned future pay awards. How do you factor that in, considering the current rates of inflation, and whether public sector employees might be looking for higher wage increases over the next ...

Treasurer of the States:

Obviously there is a huge element of decision-making for the Council of Ministers but when we first put together the expenditure forecasts we do that on the basis of forecast inflation from the F.P.P.

Senator S.W. Pallett:

Which was?

Treasurer of the States:

For this year ...

Group Director, Strategic Finance:

For 2022 it was in the Government Plan at ... sorry, in the Government Plan for inflation for pay awards was 3.6 per cent, I believe, but for next year it was based on the F.P.P. assumption of 2.6 per cent.

Senator S.W. Pallett:

So that is the figure that you are looking to when you start to engage with the unions and various other pay groups, that is the figure that you will be looking to settle at?

Head of Cost Benefit Analysis and Investment Appraisal:

For 2023, as the Treasurer says, there is obviously a political process. The Government Plan 2023 intention would be to come back and review provisions for pay awards. The common practice has been to look at the latest F.P.P. forecast for making those decisions but there have been instances where a different number may be used to help to give those to public finances; it is very much a matter for the next Council of Ministers when they are going through the Government Plan drafting process.

Senator T.A. Vallois:

Can I just check on the R.P.I. that is utilised to determine potential pay awards? Which quarter is that based on? Is it based on a specific quarter and if so, because the Government Plan as and when it is developed and put together and lodged, the R.P.I. will be different in June to what it would be in September and then you are debating the Government Plan in December? Is there consideration for that change?

Head of Cost Benefit Analysis and Investment Appraisal:

The Government Plan obviously with the time that you have rightly highlighted between drafting of the Government Plan and lodging and the actual things occurring, we do rely on the F.P.P. forecast. They forecast for the whole year rather than quarters so we use the relevant year's R.P.I. in the plan. There are risks that the numbers are different so it is normally ... I think it is the end of year inflation but we would need to check with Corporate Services colleagues to confirm exactly which R.P.I. number is used as the basis for pay awards. Although, as the Treasurer said, that is also very much a S.E.B. (States Employment Board) decision of what to do in that. But often we will have conversations with P. and C.S. (People and Corporate Services) to say: "This is the provision that was in the Government Plan that forms the envelope of those pay awards, that is what has been approved by the Assembly" and they would normally endeavour to negotiate within that envelope.

Deputy S.M. Ahier:

A recent freedom of information request revealed that the inflation strategy group did not meet in 2020 or 2021; can you please indicate why?

The Minister for Treasury and Resources:

I would have thought it was COVID-related.

Treasurer of the States:

The inflation strategy group was reconvened by the Deputy Chief Minister, who is the Minister who sits on it. That was reconvened principally to revisit the anti-inflation strategy, which had not been looked at for a considerable period of time, again with the strategy measures that will be taken or should be considered to firstly avoid inflation but, secondly, while we have high inflation in place it is fair to say, I think, that no one anticipated at that time, and by “no one” I do not just mean this Government, would have anticipated this awful situation we currently have in the Ukraine, which is leading to an exacerbation of post-COVID supply chain issues, which is on the tail of Brexit issues as well, which are all contributing to the higher price rises. During that period of time there were a reasonably low levels of inflation and stable inflation increasing, as the Minister has talked about, and I am sure if the Minister for Social Security was here she would say that her team, in particular, were looking at the potential future rises and what that might mean for those on lowest incomes, who of course are hit the hardest with increases to the cost of living. That work has been done. Those strategy principles are in place. There are requirements, for example, whenever departments are considering increases above the current rate of inflation and historic, that would be a lower-level rate than we have now, add on 2.5 per cent in terms of increasing those fees, and they come to the Minister for approval if they are above 2.5. Some of the actions that were in the revisiting of the strategy have been taken forward by various departments and controlled to a degree through Treasury.

Deputy S.M. Ahier:

The inflation strategy group were due to meet on 28th March this year, which is after the start of the Russian invasion. Could you explain what the discussions were at that meeting?

Treasurer of the States:

28th March, I am afraid I was not at the meeting because I was in another one. We were represented from Treasury; I was unable to attend that meeting. 28th March was the start of the invasion.

Deputy S.M. Ahier:

It was after the 24th. Were the minutes of that meeting minuted and would it be possible for us to have the minutes of the meeting?

Treasurer of the States:

I am sure that there are minutes but it is chaired by the Deputy Chief Minister rather than Treasury.

Assistant Minister for Treasury and Resources:

Can I just add, when we are discussing inflation, and I think it is an interesting point that the Minister made earlier, that a lot of it is U.K. imported, and I think we would all agree with that. But I do think going forward, and we saw it, and I know Senator Pallett's been involved in this for quite a while, we saw the Jersey Competition Regulator's report into alcohol pricing in Jersey. I do not know if you have had a chance to read it, but it was incredibly damning. Basically it said that it is one of the most uncompetitive things they have ever looked at. They are also looking at freight, which again there is no real freight competition. We are beginning to see some with Woodside Logistics, but there are warehousing problems to really make that competitive. Once that is made competitive, and I know Ports are looking at trying to remedy that situation in order to do so, I am hopeful that the competition regulator might even look at food pricing as well because obviously the more competition we can get that brings pricing down. It does take the inflation angle out. If you have situations where - I do not like to use the word "cartels" - but if you have a cartel operating obviously prices are going to stay at a higher level. So we do need, and I think since we have got it back here, rather than a Channel Island competition regulator now we have a Jersey one which is obviously Jersey centric, it is something that the next Assembly have to work with them and make sure that any of the recommendations they bring forward are acted upon. There is no point in them doing these reports and then everybody sitting back and saying: "That was interesting." The next Assembly has got to act on some of these reports that are coming up.

Senator S.W. Pallett:

You make an interesting point around food strategy and prices. This is just going off on a tangent for a second, competition is great but competition in the food sector is likely to mean even greater squeezes on the supplies. How would you expect to deal with that? I mean what we do not want to do is drive people out of business by supermarkets, for example, expecting farmers to produce goods at an even cheaper price.

Assistant Minister for Treasury and Resources:

Are you talking local farmers?

Senator S.W. Pallett:

Nationally and locally; especially local.

Assistant Minister for Treasury and Resources:

We have tended to look after in many spheres. I mean we have in the dairy industry. We have not allowed, if you go to the U.K. and buy ...

[9:30]

Senator S.W. Pallett:

We can protect milk but we cannot protect other products?

Assistant Minister for Treasury and Resources:

I think we can but you cannot just say, right, we are going to protect one element there to the downfall or whatever ... “detriment” is probably the word I am looking for, of the rest of the pricing situation. That definitely happens. If you get competition you are going to see it all over the place. A classic example in Jersey is the coffee shops. You can go and get coffee at all different prices in Jersey. You can pay an awful lot for a cup like that, something luxurious, or you can go to the market and get one for £1. But that is because everybody is pricing it as they wish; everybody is allowed to. At the moment, we do not see that. We certainly do not see it with the supply chain coming in here.

Senator T.A. Vallois:

Just to follow up, is it just competition or is there a way to tackle the issue where we see some shops charging V.A.T. (value added tax) on top of G.S.T. and areas like that or areas where they are charging V.A.T. and maybe taking 10 per cent off? We see it in department stores. How do you tackle that kind of jurisdictional issue because although we are a Crown Dependency we have our own Government and our own tax base?

The Minister for Treasury and Resources:

Richard is wanting to come in.

Comptroller of Revenue:

I think there are a lot of myths around what high street stores are doing in respect of the U.K. V.A.T. When you actually look at the reality of each business very few shops are incorporating U.K. V.A.T. into their retail selling price. I think what is often referenced in one or 2 high street stores that are across the U.K. or the British Isles that have a sterling retail selling price. So the price they charge in St Helier is the same as they charge in London is the same they charge in Belfast is the same as they charge in Shetland Islands. Then they do that retail selling price that accounts for all of the costs of deliveries to those locations and all of the local taxes. There are on shops on the high streets here and in Guernsey but you will be charged the same retail selling price. That is just a sterling pricing of the ... it is entitlement of businesses to do that for all sorts of reasons. Seldom have I encountered real examples of U.K. V.A.T. being charged, except from small businesses online, perhaps if you are buying through a marketplace, and some small businesses are either just not equipped or will not take the V.A.T. off. Yes, so it does happen but I do not think it is happening in the big stores on the high street.

Deputy S.M. Ahier:

Thank you. I will pass over to Senator Vallois.

Treasurer of the States:

Richard, just correct me if I am wrong. Essentially, they are charging a price that includes V.A.T. but they are not charging V.A.T. The price they charge is all entirely their receipt of the retailer?

Comptroller of Revenue:

I am sorry, Richard, I did not quite catch that.

Deputy S.M. Ahier:

Sorry, Treasurer, may we move on? Yes, please. Thanks very much.

Treasurer of the States:

Just quickly, just to clarify because it might appear that I did not regard it as important enough to attend the anti-inflation strategy group, I was in meetings finalising ... clearing the audit with the auditors, risk and audit committee, then, of course, was in this room with the chief executive attending a hearing of the Public Accounts Committee.

Deputy S.M. Ahier:

Thank you for that clarification.

Senator T.A. Vallois:

Minister, just briefly, the annual report and accounts are due. Would you be able to advise when the actual publication timetable is, and if there are any comments you wish to make in advance here is your opportunity to do so.

The Minister for Treasury and Resources:

Yes, I can tell you what the timeline is. We are tomorrow morning briefing Scrutiny at 9.00 a.m. on the report and accounts - I will hand over to the Treasurer in a minute - and then we have the States Members briefing and then I think it is in the afternoon or lunchtime a media briefing. So it is all happening tomorrow and the actual format of the report and accounts will be released tomorrow morning.

Treasurer of the States:

So they will be released internally to the Scrutiny hearing, the Scrutiny Panel, tomorrow morning and be published on Thursday.

The Minister for Treasury and Resources:

Yes.

Senator T.A. Vallois:

So if the public want to access it, it will be accessible to them on Thursday?

The Minister for Treasury and Resources:

Yes.

Senator T.A. Vallois:

Okay. Are there any comments you wish to make about it at this point?

The Minister for Treasury and Resources:

Just how outstanding it is.

Senator T.A. Vallois:

Okay.

The Minister for Treasury and Resources:

It is a big report.

Senator T.A. Vallois:

It always is, is it not?

The Minister for Treasury and Resources:

Well, there has been so much going on so it is not surprising, but I think somebody said 408 pages. So they are not going to be printed out but will be released if somebody wants to access them from the website.

Senator T.A. Vallois:

Okay, wonderful. So on to COVID-19 response and recovery, it is predominately around the co-funded payroll, as you will understand. The panel has received nearly 50 confidential written submissions raising concerns regarding repayment and, of course, we have had discussions via letter with yourselves at Treasury. In a recent letter the panel requested confirmation on the number of businesses who had challenged a request to pay or repay. You advised the panel in your response that C.L.S. (Customer and Local Services) had been notified that 172 individuals are intending to provide further evidence or discuss their 2019 tax submission with Revenue Jersey.

How come Revenue Jersey do not already hold the required evidence from the 2019 tax submissions?

The Minister for Treasury and Resources:

Well, they have the 2019 tax submissions, obviously, and the requests in some cases for payment on the co-funded payroll scheme did not tally with the tax returns. So that is where the questions ... I am going to hand over to Phil because he has been dealing with all of this, but it did not tally at all with their tax return and what they had requested from the co-funded payroll scheme. So, it is our duty, because we issue the co-funded payroll scheme, to check up on those that do not match their tax returns because, again, the co-funded payroll scheme is taxpayers' money so it is incumbent on Treasury to make sure that we are dealing with taxpayers' money in the correct fashion. But Phil runs the scheme so he could ...

Senator T.A. Vallois:

Were Revenue Jersey involved at the application stage at all?

The Minister for Treasury and Resources:

It was the ... for the co-funded scheme?

Senator T.A. Vallois:

Yes.

The Minister for Treasury and Resources:

Well, they have been involved with everything all the way through.

Head of Cost Benefit Analysis and Investment Appraisal:

In terms of the scheme design, officials from Revenue Jersey were on a much wider team that included basically every government department that could possibly be relevant to such a massive scheme across the entire economy. So in terms of that design element, they had a role. From an administration perspective, it is administered by C.L.S. so the work that Revenue Jersey have been doing ... and the Comptroller is on the line and he may want to speak more eloquently than I can about why people might be revisiting their previous years' tax information, but in each of those 172 instances what they are essentially saying is that they have looked at their prior period tax assessment and they feel maybe they have not provided all of the information necessary and that that, therefore, might not be accurate. But that is on the individual in terms of what they have declared for tax purposes as opposed to anything that is a weakness in the data held by Revenue Jersey.

Senator T.A. Vallois:

Okay, thank you. In a letter from yourself to the panel on 23rd March, it was highlighted that 29 repayments have been cancelled and 27 reduced. Are you able to provide an update on this figure and confirm the common reasons?

Head of Cost Benefit Analysis and Investment Appraisal:

Yes, that has not changed. In each of those instances it has been the case that the individuals have revised their prior period tax information. So they have declared higher, I believe ... the Comptroller is on the line and he may be able to speak about the individual cases, but I believe that in each instance they have updated their tax declaration.

Senator T.A. Vallois:

Okay. What does that mean, then, in terms of the declaration of the tax at that point, then? What does that mean for that company if it is differential to what it originally was?

Head of Cost Benefit Analysis and Investment Appraisal:

We have to assume what might have happened, but the Comptroller has come off mute.

Comptroller of Revenue:

Well, generally speaking, people make a tax return and we accept it at its face value. We enquire into a number every year. Clearly, because of the existence of the co-funded payroll scheme people were asked to use figures in those applications that they would have taken out of their tax return and in some cases there appears to have been a difference for whatever reason. So my understanding is that C.L.S. is going through those cases with individuals. If they believe they have their tax return incorrect, they are able to revise it. If in fact they have just misunderstood the definitions used within the co-funded payroll scheme and they have misused a number, then it would obviously be a correction to their co-funded payroll scheme application.

Senator T.A. Vallois:

So would it be fair to say that the criteria that was applied for the application of the co-funded payroll scheme is different to the criteria that is applied to income tax and that is why there is a differential?

Head of Cost Benefit Analysis and Investment Appraisal:

Yes, there are absolutely differences. In terms of the amount that is chargeable for tax purposes it is a lower number than what we are trying to support through the C.F.P.S. (co-funded payroll scheme). That has been a source of many of these requirements to repay. The rationale there is that what we wanted to essentially support is people's gross personal income. So if you think about that in terms of an employed person it is slightly easier to follow. So, it is someone's basic salary

before deductions for, say, social security payments and their I.T.I.S. (income tax instalment scheme) contributions that then arrive at their net salary they take home. We want to support the equivalent for a self-employed person. So if they had a shop and that was their sole source of income, it is the business profits they make from that shop before you start taking off other tax allowances they might have and certainly before you start considering things like social security contributions. That ultimately is their starting point for their personal income and that is to make it equivalent to what we supported for employed people. That is what we were trying to support but it leads to a higher level of income than is the bottom of a tax calculation where you deduct a few more things depending on your personal circumstances.

Treasurer of the States:

But the key there is the income ... in terms of an employed person, income from employment, not income from investments they might have.

Head of Cost Benefit Analysis and Investment Appraisal:

Indeed, yes.

Treasurer of the States:

So, therefore, that parallel has tried to be replicated with the self-employed. It is not all income, it is income related to their business activity, not ... as it would be essentially flowing from what they do with most of their time as opposed to rental income from property they own which would not have been available under the payroll scheme for the employed or investment income. That is the difference between what might be in their tax ...

Senator T.A. Vallois:

Okay, that is helpful. Thank you very much. If an individual concludes that they should not make a repayment as they believe the original calculation to be correct, but the department concludes that the repayment stands, what independent recourse, if any, exists for both parties to reach an agreement?

Head of Cost Benefit Analysis and Investment Appraisal:

There is not a formal appeal process. That is something we have applied consistently throughout all economic support schemes and the reason for that in this instance is there is no subjective element to this. It is not a judgment that has been applied by officials, it is fairly binary: that number is smaller than that number and, therefore, there is a difference. If there is a difference that stands that an individual cannot provide further information to justify or that does not end up revising their tax calculations because they discovered, having looked at them more closely, they are inaccurate, then there is a case to answer, effectively. Ultimately, though, we have had a de facto review

process available in that individuals are entitled to write to the Minister in those circumstances. That has been the case throughout all the different phases of C.F.P.S. So sometimes that is something that can be dealt with at official level, it is just the application of different rules and making sure that they are being translated appropriately. Where a decision is made or is required, rather, it is elevated to the Minister for consideration. So we have not as yet got to that stage on anything like this and it is unlikely, I think, that we will necessarily get there on the basis that it is a case of whether the tax information is aligned for an income that got declared for C.F.P.S. purposes. Unless those 2 become equal, then there will always be repayment required.

Treasurer of the States:

We have had cases in the past where we have had to reconsider. Those were largely around whether the trade was a qualifying one or not. So we have had to revisit that throughout the different phases of the co-funded payroll scheme, in a couple of cases changing the rules in order to accept that that business should have been included in having support.

[9:45]

They are more generally the cases we have had than necessarily the calculation of the quantum. We do have a process internally. Phil does a great deal of work with C.L.S. on individual cases just to have that second pair of eyes if there is a need to look at it, but as I say, most of those cases were about appealing or making changes to future versions of the scheme, if we had new businesses formed. The pandemic was still with us to a degree but businesses formed during points where lots of restrictions were withdrawn, we then had to redraw the boundaries of the scheme to allow those ones to claim in the future or, sorry, subsequent phases of the pandemic.

Senator T.A. Vallois:

In terms of value and recoverability for the material balance owed to the Government of Jersey under the co-funded payroll scheme, will that be identified in the 2021 accounts? Or some of it identified?

Treasurer of the States:

I can provide you with the number. It is not obviously evident as to what that value is in the annual report and accounts because debtors are a much larger number than that, including tax debts and suchlike, but we can certainly ... we can look at that in terms of providing a number in the presentations we give in the coming couple of days.

Senator T.A. Vallois:

There were discussions, if I remember correctly, last year about the annual report and accounts, about that separation of COVID spend versus business as usual. Has that been a consideration, and particularly identifying recoverability as well?

Treasurer of the States:

So it is certainly the case that we provided more narrative on COVID spend and separated out in the draft presentations COVID spend year on year, so that you can see, for example, increases or decreases in departmental spend outside of that direct COVID official assistance or cost or benefits to businesses and individuals. So you can certainly see that. What you cannot see necessarily is the balance sheet side of that in terms of we have to provide more information on the amounts of deferred taxation, for example, at various different stages and/or in this case amounts due to be recovered. But we can provide that information.

Senator T.A. Vallois:

In terms of the co-funded payroll scheme there were a number of phases that were applied to that. Is auditing of further phases being implemented? Can local businesses expect that more repayment requests are made following further auditing?

Head of Cost Benefit Analysis and Investment Appraisal:

So the only outstanding audit is in respect of phase 7, which operated from December 2021 and January this year. So data for all of the claims has been published now for everything up to phase 6, which ended in October last year, and claims which are made in November because they are made in arrears. So we obviously are conscious of this particular issue and so have updated the claim form to give explicit reference to the definition of gross income to be used. We are also now obviously aware of people's prior period income so are able to do those tests up front in a way that was not possible in earlier phases because that data was not available to us because of the lag between completion of tax assessments and ... for self-employed, which is much later than it is for the employed on average.

Senator T.A. Vallois:

Okay. Just thinking and looking at the way that it was done very quickly, considering the circumstances we found ourselves in, are there any learnings to take away from this? Where would those learnings sit should we foresee in the future some form of other pandemic or financial crisis or shock to the economic system in Jersey?

Treasurer of the States:

I suppose Phil lived and breathed this even more so than the rest of us, but you can see some of that learning taking place through the different phases as to what worked best. If you look very early

on, it is quite a different scheme to the one that you saw further down the line. It was great the work that the economy team did in helping us in classifying businesses, which was a great help in terms of identifying those businesses in most need. We do believe that the more targeted scheme that we had was far more advantageous than some of the schemes you saw elsewhere. While there are these disagreements over these amounts and repayments, that is nothing compared to amounts that have had to be written off and a huge comment from the Public Accounts Committee in the U.K. in respect of fraud, and the Minister is resigning over that. So we do think that we got that bit right. Self-employed is a really tricky area. In the U.K. they just said it is a block sum. We tailored the payroll scheme for that. No doubt those things would be revisited. I think this was probably more advantageous under this system than under the block grant system for the majority of those which suffered ... no doubt. I come back to the learning would have been principally around the different phases. We got to learn as we went with these schemes in terms of what worked better and what did not work better. So I think that is all there. We just would provide more and more guidance, I suppose.

Senator T.A. Vallois:

I suppose the question is: would you as Treasurer, guardian of taxpayers' funds to make sure that we have value for money and we are spending money appropriately, and we have been through a crisis, that is recognised, but would you have some form of, I suppose, emergencies public finance manual in your back pocket in terms of a learning objective if something were to happen again?

Treasurer of the States:

So wider than the co-funded payroll scheme, because I have dealt with questions about that and that is a different thing itself, the changes we made at the start of those changes, the Assembly made at the start, to allow the Minister more flexibility in having additional budget, and one of those is still there, which means that the Minister, whoever they may be in future, can in the case of an emergency access £100 million extra. That was previously £10 million. In the scale of this challenge, that was just simply inadequate. That £10 million was around, I do not know, an example of an oil spill off a beach or something, as something you needed to respond to and then come back to the Assembly. There were huge challenges at the time in terms of coming back to the Assembly back in the day. Of course, it became much easier further down the line, did it not, in that the Assembly could meet by Teams, virtually, so all of that would have made things easier. I think it has taught us a few things in terms of thinking about that point at which you need reserves. They are most likely to have been hit by the incident. We had done some work 6 months previously about what you call black swan events and suchlike, which showed us that at the very point in time you would need to access it. So having short-term borrowing facilities becomes quite important there, so we have attended to that. The thing I think that is more public accounts than anything else is improving our cashflow forecasting. It is very difficult in our current system. We anticipate that will

be much improved in the I.T.S. (Integrated Technology Solution) system that is being implemented, but it is very difficult across our group to forecast both tax flows - the majority of those come in quite smoothly but big lumps come at different times - and then the expenditure predominantly on capital. But most people forecast that they will spend more than they do and I tend to be fairly prudent on the forecasts, shall we say, so there is that learning. We have added chapters to the public finances manual for what can happen in an emergency off the back of the recommendation of the C. and A.G. (Comptroller and Auditor General). I had issued a letter which did most of that, but the C. and A.G. rightly said: "Why do you not just put it into the manual?" So we have done that off the back of that. So, it has taught us a number of things but we have moved through the pandemic to address those, I think it is fair to say.

The Minister for Treasury and Resources:

I think, following on from the Treasurer, it has been a steep learning curve because we had to react absolutely immediately, and quite how much was because we had immediate access through the amazing stuff that the Greffe did with setting up Teams. Whereas it would have been having to be passed by a States Assembly, we could do it electronically with agreement. But we had to react like that because we did not have a choice. So, I think it has been a steep learning curve but I think ... I am a proud Jersey girl but I think Jersey has done superbly through this with all the stuff that we have done with the co-funded payroll scheme and the Spend Local card, which has been an example to other jurisdictions.

Senator T.A. Vallois:

Just on the co-funded payroll, the last question, in terms of the Deputy Chief Minister and yourself have indicated that payments could be extended further, potentially up to 5 years, is the Council of Ministers unanimous in providing that extension? Is that decision to be made? I know that there has been a decision to ... I think it is 2 years at present.

The Minister for Treasury and Resources:

Two years.

Senator T.A. Vallois:

But is there an expectation that will go further?

Head of Cost Benefit Analysis and Investment Appraisal:

It is the case now that it is 2 years for all claimants, but any who have a repayment of more than £5,000 or can evidence in any way that that repayment requirement would cause financial hardship are able to access the 5-year ...

Senator T.A. Vallois:

Okay, that is great. Just finally from me on the COVID side of things, is there an exit strategy for public finances being used to pay for things like P.P.E. (personal protective equipment) and testing? We have seen in other jurisdictions where they are withdrawing that free testing or free P.P.E., and we provide P.P.E. to private care homes as well. So in the understanding of being a guardian of taxpayers' money and making sure that we are getting value for money and where we are with regards to the pandemic, is there an exit strategy for us paying for those items and, if so, when is it expected?

The Minister for Treasury and Resources:

It is a very good question, Senator. I asked exactly the same thing the other day. There is no ... from the lateral flow test testing, which is now the packs are given out free to anybody who wants them and delivered, there is no at the moment deadline for that stopping. A lot of it depends on the U.K. because obviously that is the supply chain and we are very grateful to the U.K. for supplying the vaccines. We have had to pay to administer them, but the vaccines have come from the U.K., as they have with overseas territories as well. So, from the point of view of an exit strategy, I think P.P.E. will be the first one to be looked at when there is less of a risk, especially in care homes and hospital, but no, there is not a date set for that.

Senator T.A. Vallois:

Okay, thank you. I will pass to Senator Pallett.

Senator S.W. Pallett:

Can I firstly apologise for being a few minutes' late? I got caught up in traffic, unfortunately. The Fiscal Stimulus Fund was set up to provide timely, targeted and temporary funding to projects of no more than £5 million per project, due for completion by December 2021, obviously to stimulate the economy. The panel wrote to you, Minister, questioning project extensions and you responded on 25th February. In that letter, you indicate that just over £409,000 has been received by projects which are no longer continuing under the Fiscal Stimulus Fund. Can you confirm if that money was actually borrowed?

The Minister for Treasury and Resources:

There are, just for a numeric update, 14 projects that have completed. Just for somebody listening, the difficulties we had with the T.T.T., timely, targeted and temporary, whatever it stands for, was supposed to be completed by the end of 2021 because it was an economic boost, if you like. But because there were so many applications it took a long time to process those applications. So the applications came forward to the F.S.O.G., Fiscal Stimulus Oversight Group, which did not include me, it included the Treasurer, so he will be able to elaborate, and then the recommendations from

that group went forward. So that is why there was a delay. It was not the people applying. They then had to as a secondary nature produce a very comprehensive business case before they got any monies whatsoever. So as at the moment 14 of the projects have completed totally. A further 18 are due to have completed by the end of March, so we are just waiting for the update on that, and 11 projects have been extended and are due to complete by the end of June. That is the last date. It is not extending beyond that. Of course, out of the initial applications, 4 of them have not been able to guarantee that they will complete by the end of June so funding from elsewhere has to be found; for instance, the opera house and art centre.

Treasurer of the States:

Okay, if I can answer the question in respect of borrowing, the borrowing that we have done at any stage for the Fiscal Stimulus Fund is usually the entirely short-term facilities. So in cases where we may have borrowed more than needed to because cashflows have not happened the way that we would expect, we would then repay that.

[10:00]

So there is never a position where we have borrowed on a long-term basis for anything to do with fiscal stimulus or at this point in time anything to do with COVID. All of that is just balanced, it has really tried to be matched against that cashflow forecast rather than necessarily the amounts that we have agreed to grant on a long-term basis.

Senator S.W. Pallett:

So the £409,000 that was mentioned, that has been repaid?

Treasurer of the States:

That has not been repaid as yet.

Group Director, Strategic Finance:

No, so that will form part of the total costs from the Fiscal Stimulus Fund, which under the approvals in the Government Plan will provide for, but there is also in the Government Plan the intention to minimise that borrowing. Indeed, Senator Gorst's amendment asked for a plan for complete repayment of it by 2026, which will be considered in the next Government Plan, but yes, it is in the total cost incurred through the Fiscal Stimulus Fund.

Senator S.W. Pallett:

So where is the 409? Where is the £409,000? I presume it is being borrowed?

Group Director, Strategic Finance:

So it is a cost in the Fiscal Stimulus Fund which has been ... the mechanism for funding is through borrowing from the revolving credit facility.

Senator S.W. Pallett:

Okay.

Treasurer of the States:

So we will readjust as we roll the borrowing over the amount we need rather than it being specifically £409,000.

Senator S.W. Pallett:

All right, okay. Can you confirm ... well, you have provided us with some information around the extensions that have been allowed. You have 18 that are ending in March, 11 projects due to complete by the end of June. Is that all the projects due to be completed by the end of June, including Springfield?

The Minister for Treasury and Resources:

It is excluding the 4 that applied.

Senator S.W. Pallett:

Which are?

The Minister for Treasury and Resources:

Which is the opera house, art centre, Oakfield and ... which one?

Treasurer of the States:

The athletics.

The Minister for Treasury and Resources:

The athletics.

Senator S.W. Pallett:

Okay.

Group Director, Strategic Finance:

So Springfield is still ... the fiscal stimulus support for Springfield will cease at the end of June.

The Minister for Treasury and Resources:

Yes.

Senator S.W. Pallett:

Okay, so how will that ... where will the money come from to complete that?

Group Director, Strategic Finance:

So there has been ...

Senator S.W. Pallett:

How much will that be?

Group Director, Strategic Finance:

I can find the numbers if you give me a second. If not, we can get back to you. But the bulk of the money for Springfield will be funded through fiscal stimulus. We had discussions with the department that any amounts after June which fall outside the policy of when fiscal stimulus support can continue to, due to the timely nature of it, would have to be met from the department's budgets, and I believe they have a plan in place to do that.

The Minister for Treasury and Resources:

I just have it here. They have asked for an extension until the end of June, as you will know, and any funding requirements beyond this point will be met through departmental funding.

Senator S.W. Pallett:

Okay. It seems a bit of a messy way of doing it but ...

The Minister for Treasury and Resources:

Well, it has not been ... obviously nothing has been quite as we expected, but with supply chains and various delays they have not been able to meet it, and that has applied to a lot of people.

Senator S.W. Pallett:

Do we have any indication how much that is going to be?

The Minister for Treasury and Resources:

No. Well, I have not.

Senator S.W. Pallett:

No idea? Okay, all right. You outlined in that letter that a policy is under development to take into account the requirements of the fund during the election period. How is the publication of that policy progressing, how you handle it during the election period?

Group Director, Strategic Finance:

Would you like me to answer this, Minister?

The Minister for Treasury and Resources:

Yes, please.

Group Director, Strategic Finance:

So, the intention is ... so, as you know, there are regular updates to the States Assembly in terms of the progress of the Fiscal Stimulus Fund. So there will be a report on progress up to the end of the first quarter, which will be our aim to present to the States during April. What we will do for that is outline the policy for any decisions, as you describe, that have to happen during the election period as part of that report in order to wrap up the policy as part of that report.

Senator S.W. Pallett:

Okay. I am just interested in ... you mentioned other projects and I can remember a television report around a source of funding for Oakfield, for example. Has that money now been sourced and where is that coming from? It was mentioned underspends. Has that now been identified in terms of how that is going to be funded?

The Minister for Treasury and Resources:

Oakfield is no longer in the Fiscal Stimulus Fund.

Senator S.W. Pallett:

I know it is not. I am just interested in where the funding is going to come from for it.

Treasurer of the States:

We are reallocating from capital unspent at the end of last year.

Senator S.W. Pallett:

Okay, that is fine. With the benefit of hindsight - hindsight is a wonderful thing - what alterations to the creation and implementation of the fund would you have incorporated? I suppose that is the question: could it have been done better?

The Minister for Treasury and Resources:

I do not think it could have been done better. It was a great innovation and I think helped how many businesses? A huge amount of businesses or recreation to go forward in a time when they could not operate otherwise. So I think it has been a very, very innovative fund. I think we had not, as I said at the start of the question, expected the applications that we had or the enthusiasm for it and equally we had to help out with a lot of people who did not quite know how to produce a business case. So it has been a learning curve again.

Senator S.W. Pallett:

But in terms of the Fiscal Stimulus Fund were the targets too ... were they realistic in terms of December 2021, for example, in completion of projects? Looking back, would you have extended that?

The Minister for Treasury and Resources:

Well, they have.

Treasurer of the States:

I think part of the reason why it took longer is that when the proposition was first lodged it was not envisaged that we would have second and third phases and support phases of the pandemic, which obviously then impacted the ability to deliver those schemes. It was done on the economic advice at the time. The disappointment was we had a proliferation of construction as opposed to some other projects. There were very good other projects and skills. For example, we can look again at how the business case process went, but that worked well in terms of being clear that things could be delivered. We have had some instances of subsequently schemes coming forward to say it cannot be delivered to that timescale, it will be delivered to a longer timescale because you took so long, but then when you look at it you say it was never deliverable within the timescale even though you said it could be. Perhaps slightly more fleet of foot in some of the decision-making but, as the Minister said, with 94 applications through that first phase it became very difficult. It is for me interesting that potentially there is a space here for some form of community development fund, but that would be a political consideration. There are a number of good examples of projects delivered for the community that will see benefits into the long term and that is a different thing. So, I think one of the lessons is potentially that, as you say, with the perfect hindsight, each of these crises, having the financial crisis followed by the pandemic, does not necessarily lead to the same economic impacts but you only have the previous ones from which to learn. In terms of the financial crisis, we had learned from the schemes that were put in place there. I am sure the economic advice next time around, hopefully there is a bit of a gap ...

Senator S.W. Pallett:

Let us not have a next time around too soon.

Treasurer of the States:

... would be informed by what has happened this time to say whether there is economic ...

Assistant Minister for Treasury and Resources:

I have to say that there are some really good opportunities, some fantastic stuff that has gone on, the Howard Davis Hall if you get a chance to go and look at that, Acorn, where we were yesterday, with a massive new storage space, the refuge, which has been finished on time, and also if you go along St. Clement Road there by St. Patrick's church, the paddle tennis now really taking shape. So I think a lot of good has come out of it. There are always lessons to be learned, as you know, but I think it has had some great results.

Senator S.W. Pallett:

Okay. I shall hand over to the deputy chair.

Deputy S.M. Ahier:

Thanks very much. We will move on to the Technology Fund now, Minister. A summary report on the progress of the fund will only be published in the annual report and accounts. Why are 6-monthly reports not being required?

The Minister for Treasury and Resources:

I think that is the Treasurer.

Treasurer of the States:

The Technology Fund. So the one that has not as yet been debated?

Deputy S.M. Ahier:

Yes, P.75, yes.

Treasurer of the States:

I would say that we would issue a progress report and a half-yearly report but it would be audited, of course. The only audit takes place at the year end.

Deputy S.M. Ahier:

Okay, fine. What performance metrics, Minister, of the fund do you plan to request to aid the next Minister in measuring the success or otherwise and providing governance of the fund?

The Minister for Treasury and Resources:

Again, I think if it is the performance matrix it has only just been issued. It has not been debated yet.

Deputy S.M. Ahier:

No.

Treasurer of the States:

So I think it is fair to say it is not just Treasury who will be working there, but we have focused heavily in developing to date the fund to say some idea of what success looks like and how we assess the delivery against the objectives of the fund in terms of encouraging that system of digital technology in the Island. So in each of those cases if you want to say to me: "How is the Fiscal Stimulus Fund aiding that?" it will be in terms of identifying clearly what we hope to achieve and deliver by each of the projects or the programmes of work as they are brought forward through Digital Jersey.

Senator T.A. Vallois:

Can I just follow up on that? One of the issues we have seen historically from C. and A.G. reports, the Innovation Fund being an example, was around governance. What assurance can we have that we have learnt from those issues and that the same mistake will not be made again?

Treasurer of the States:

I can tell you that in respect of the Fiscal Stimulus Fund, for example, governance featured very heavily to the extent that some might say that contributed to how long it took to go through all of those things. I will be very keen in the role that I am charged with in the proposition to be looking for convincing plans, completely convincing K.P.I.s (key performance indicators). At all stages within the Fiscal Stimulus Fund we were very focused on where the decision lay, who the decision maker was, what the recommendation was, what the role of F.S.O.G. was. All of those have been learnt through the Innovation Fund and the subsequent reports of the C. and A.G. at that time and brought into the learning for the Fiscal Stimulus Fund. Obviously, to a degree the Technology Fund is more challenging because it will have a broad set of objectives, some of which will be easier than others to assess afterwards, but we will be looking ... that is not necessarily where the Innovation Fund issues arose. It arose on who was the decision-maker and who was taking responsibility for that decision. We will be heavily focused on that, believe you me, particularly because I am sitting on the initial panel.

Senator T.A. Vallois:

The Public Finances Law requires that the States agree the purpose of a fund or establish the fund. Is it clear, then, that the objectives set are fully understandable in terms of the expectations and the risk profile for this Technology Fund?

Treasurer of the States:

So, dealing with risk, we have said that we do want ... and indeed when we spoke with the Council of Ministers we did identify that the risk profile is higher than we would normally expect for the expenditure, but that goes with the potential rewards that we are trying to deliver from that funding. So we have said - hopefully it is clear - that the risks are greater. They are not going to be ... that is not to say that they will not be mitigated to the extent we possibly can and we will focus on the degree of risk in any one project or not. Part of that will be addressed by ... I suppose the phrase is not putting all your eggs in one basket, by being careful about the amount of money that goes to any one project on the programme. Part of that will be around being convinced in the cases. That is why we are using experts in the area. There was some suggestion ... I am not sure I wholly agree with the finding on the Innovation Fund that insufficient expert views were taken, which is why we are proposing to put it through Digital Jersey. There will be a panel within Digital Jersey or formed by Digital Jersey looking at whether it is believed that those funds ... whether it is believed any of the projects or programmes are taking more risk than they should. Some of that risk taking has been identified when we have been looking at options to develop the funds. So there were previous versions that talked about equity stakes in businesses and suchlike, but that came from the Innovation Fund. The Innovation Fund was at a different point in ... or, sorry, a different economic situation. So we are quite content at the moment that there is a market failure as much in terms of things coming through that banks or high-value residents and wealthy individuals might be able to be matched to. We can see there is a lot of infrastructure in the Island now around matching good ideas to the funding. That was what the Innovation Fund was trying to address that was not needed this time around with the Technology Fund, which is why the focus of the Technology Fund is different.

[10:15]

Senator T.A. Vallois:

Just in terms of when you refer to the ... I think you have to have higher risk profile when it comes to investing in things like technology and accelerating technology, and there is mention of seed funding. So will there be a tranche phase? I have seen accelerated funds elsewhere where you might put £150,000 into a concept to determine design and how that might come to fruition and it may have a high rate of failure. Is that a consideration that is being sought through this fund?

Treasurer of the States:

I think in many of those instances it has to be accepted ... I think if we looked at the report for the proposition, the report talks about where we are trying to pitch this, and it is not at the most risky area. It is on early adoption of existing technology rather than developing that new technology. We

are not saying we are aiming for the development of the new technology. We are looking at its adoption in cases of whether you have existing technology that could be adopted for new purposes or whether it is early adoption rather than late adoption, so getting ahead of the curve in terms of the maturity of the use of the individual technology. It is not so much right down at the start of development or from the lowest base of the technology, it is early adoption of existing, therefore reducing to a degree that risk taking.

Senator T.A. Vallois:

Okay.

Senator S.W. Pallett:

You say that but then again page 12 of the report says: "Seed accelerators may help organisations learn when and how to fail" and (a) is more efficient development decisions, so that would suggest it would be for potential ... sorry, early adoption. I think there is some confusion around what that is meant to be and reading the report I think you could take 2 ways of looking at it. Is this technology that is already existing that you are looking to move on, or is it a new set-up? Because a new set-up or new businesses or new technology is more risky so I think ...

Treasurer of the States:

We are not looking to invest in those new set of companies but there may be people coming forward with ideas that Digital Jersey would grant funding for and how much is in any one of those cases. So yes, there will be failures arising from this. It is the nature of this sort of funding that you have to undertake. Not all of the cases that come forward will be successful and, yes, there should not be an expectation that all of it will be successful but that that funding will find some good cases and good business ideas that can then subsequently be developed.

Senator S.W. Pallett:

That is the bit that worries me a little bit because we have 12 or 13 pages of the report, one paragraph on programme funding and governance, and I think it is the governance part that Senator Vallois picks up on. That is the bit that worries me and how that is going to work. It sets out what you will be doing, but I think in terms of comforting States Members and the general public more widely do you not believe there should have been more focus on what the governance will be?

Treasurer of the States:

There are 2 different things here. One is the governance, and we will get the governance right. We will set the high bar. We are trying to learn from the previous examples. The other is the actual nature of what we are trying to deliver here will mean that not all of those grants or all of those cases will be successful. It is the nature of having to invest or trying to create the system in any place that

this is the riskier end of spending to that degree. I probably would like to sit down with people from the digital sector. My involvement is really around the governance end, so we will focus on the governance, we have got the A.O. (accountable officer) for the fund, but we will be working with the A.O. to do as much as we possibly can, but it has to be accepted that not all of these will be successful. But in order to, if you like ... these are all around productivity ... not all of them but many of them are around productivity and the economy. You have to, in order to find the good ideas, accept that you will back some that do not, but the focus will be on delivering the ones that do.

Senator T.A. Vallois:

Just on to underspend, Minister, the 2021 end of year flexibility Ministerial Decision highlights that the Government of Jersey underspent by nearly £200 million last year, only £93 million of which will be released to the Consolidated Fund to reduce the borrowing requirement from the revolving credit facility. Are you able to explain the difference in those figures?

The Minister for Treasury and Resources:

Difference between ...?

Senator T.A. Vallois:

Well, there is a roughly £200 million underspend, £93 million being moved to the revolving credit facility, so there is about £107 million left over.

The Minister for Treasury and Resources:

Yes, there is a breakdown, which has been released anyway, but about £80 million from memory of that was projects that had not been able to proceed because of the pandemic, which goes back to those projects, and then the rest of it ... have you got the figures in your ...?

Treasurer of the States:

I think Andrew is tracking down the exact numbers but, yes, the reconciliation is around ... as we see every year, and there are lessons that we are learning through the Fiscal Stimulus Fund around firstly identifying whether the aspirations to deliver capital - we are largely talking about capital - projects are realistic. There is a big focus among E.L.T. (executive leadership team) in thinking about that while we bring forward the plans in next year's Government Plan. Obviously, some of that is impacted by COVID but we see continually that there is optimism bias, shall we say, in delivery of projects in the timescales that are set out.

Senator T.A. Vallois:

I think that has always been an issue with capital, though, has it not?

Treasurer of the States:

Yes. That is mostly what we are talking about. When we say projects, most of those will be capital projects. Some of them will not be but most of the bigger amounts of money relate to the spending of what you would historically have described as capital projects.

Senator T.A. Vallois:

If we look historically, as an example the departmental underspend for last year was higher than I think I have seen in my time in the States. It used to roughly sit around £20 million in terms of departmental underspend and now it is roughly around £37 million. When you talk about optimism bias, and I know you are having to tackle with politicians who want to get things done, but what are the capacity issues that are preventing us going forward with some of these projects?

Treasurer of the States:

The capacity issues - and the guys will come back on the numbers in a second - relate largely to the capital projects but they also do have a relevance to our ability to deliver what we might call growth or investment in services. There is a great deal of challenge that is always taking place to say is that realistic in terms of delivery and that will also be a focus again as we sit down with the next Council of Ministers and develop the Government Plan. Those are the spent funds. Unspent funds will give us more licence in the Treasury to look at that challenge. We have gone through the business case templates and suchlike to take that into those templates to require more information on any applications for further investment that are made, but some of that learning around fiscal stimulus is pointing towards what is missing. Is it project management? Is it capacity within the departments that have to deliver it or even in the departments that are specifying the need? So, it will involve within C.Y.P.E.S. (Children, Young People, Education and Skills) people from C.Y.P.E.S., if it is a new school, on the client side specifying what is required as opposed to just being about the department that delivers. But there is also a capacity issue from an Island perspective that we have to look at as well, which is what we are starting to see coming further down the line. So, it is very much that. It often falls on the same shoulders. Every initiative often falls on the same shoulders and we will need to be realistic in setting aspirations for project delivery.

Head of Cost Benefit Analysis and Investment Appraisal:

On the departmental underspend also it is worth stressing that half of that was in relation to COVID. So it was about 18-point-something million that was the actual conventional B.A.U. (business as usual) departmental underspend, so consistent with previous years.

Senator T.A. Vallois:

Oh, okay.

Head of Cost Benefit Analysis and Investment Appraisal:

It is actually a little bit lower. There will always be a structural underspend to some extent because of the nature of approvals. It is illegal to overspend so you have to have some flexibility.

The Minister for Treasury and Resources:

Plus the breakdown of all that will be in the report and accounts released tomorrow.

Senator T.A. Vallois:

Okay, thank you. Just in terms of that funding that went back to the revolving credit facility, what has that done in terms of how much has that reduced that debt? So what does that debt profile look like now?

Head of Cost Benefit Analysis and Investment Appraisal:

We will continue to work that through and that will obviously be developed as we go into the Government Plan and, as the Minister says, some of it will come out in the report and accounts, but the release of those funds obviously reduces the amount that needed to be drawn down in 2021. I will have to get back to you on this and confirm it, but in the Government Plan 2022 it did have an updated forecast of how much would be drawn down for COVID and fiscal stimulus. I am going to give you a number off the top of my head but, forgive me, I might need to correct it later. I think it was about £140 million was forecast. There was less borrowed for those amounts in the annual accounts. We have seen that coming through.

Treasurer of the States:

Part of the issue in terms of the numbers changing is when we set the Government Plan we have to set it up on the basis of the approvals to spends, the budgets that were available. It is only as we get towards the end of the year, at the year end, that you can then reduce what you need on the basis of actuals. I cannot just, because I think that spending will be less, reduce the borrowing permission because those budgets are still with the departments up until the end of the year and it is only after the end of the year that we can then go through the cycle. I understand there has been some frustration and some comments made around, well, all this money was available so, therefore, the forecast was wrong. The forecast is done on the basis of the approvals available to the department in presenting to the States Assembly the permissions that have been asked for, but we do not have the power to withdraw those during the year and rebase them, which is why you end up in this position. It is exacerbated massively because of the COVID reserves and the COVID expenditure, as Phil has pointed out, but that was not a failure to spend, that was it was not actually needed in terms of tackling COVID at that point in time. So we did take a very generous approach in making sure that funds were in place and a huge chunk of that was the reserve that was not spent. Because at the time you firstly lodge your Government Plan, of course; that is in September,

October. It is a long time in advance of what we saw in the Christmas period that followed and through the following year. So a big chunk of that is COVID reserves and COVID expenditure.

Group Director, Strategic Finance:

If it suits you, I can draw together ... so I think you asked around sort of what was the amount that was carried forward and I think the Treasurer has answered that, but just to give some numbers, which are in the report but to give the context; £67 million went to specific projects that were voted and kept on those same projects approved by the Assembly. There was also nearly ... well, £4.5 million in departments, which also related to either projects that were agreed, policy of ... so, for example, overseas aid retained some of their underspends. So departments did not get additional monies for those things, they were sort of within those policies or projects identified, the Jersey Care Model being another example. In reserves there was £30 million rolled forward, but £2 million of that was to do with capital reserves, so again it is relating to those project spends. There was a roll forward to starting, so slightly against some of the impact of inflation, so the reserve centrally held items, nearly £7 million was rolled forward. So we knew that there was a forecast for higher inflation so the decision that the Minister took was to retain some of those amounts that were not used in 2021 to have them in 2022 in that reserve as well. The balance, there was another £18 million or £19 million in the general reserve. Those would be for pressures that were already identified in 2021 but had not necessarily been drawn down. Those have been rolled forward into 2022 because they have not gone away, it is more around the timing of when they would be needed. So, all of it was done for a purpose as opposed to rolling it forward.

Senator T.A. Vallois:

Okay, thank you. I will pass back to the chair.

Deputy S.M. Ahier:

Thank you. I just have a quick couple of questions on borrowing. How is the preparatory work for issuance of the bond to fund the hospital project progressing and have changing interest rates altered the best course of action?

The Minister for Treasury and Resources:

Okay. We are doing it - the borrowing this is - in 2 different tranches, I think is the word that is used. The first one will hopefully be signed off at the end of April. We have the advice from 4 different banks and it will be gilt lock bonds that we will be signing off. It is for a 30-year period. The interest rate on that - the Treasurer will correct me if I am wrong - I think is set to be 2.6. That is the first one and that is what we hope to sign off. That is to repay the pension debts of the P.E.C.R.S. (Public Employees Contributory Retirement Scheme) and the teachers' superannuation fund. So it is to pay those off, which will save a considerable amount of money. I know people keep saying we are

leaving debt when it comes to ... which I will come to in a second, the hospital loan, leaving debt to our children and grandchildren, but this is to remove that debt responsibility. So we borrow to pay it off and at that sort of rate of borrowing the rate of interest on the accounts for the Strategic Reserve, to name our rainy day fund as some people call it, are ranging. Obviously, it is flexible, it is volatile in the current situation, but about between 5 per cent and 6 per cent. So that there is the repayment schedule. So what we make on the interest on the reserve fund will pay off the debt that we owe on that one. The second tranche, which will be for the hospital, will come later in the year because we cannot go forward to borrow the money on the basis that we are still waiting for planning permission for the hospital. So that will be if planning permission is agreed, and then we have to sign the contract with the builders and then we move into the borrowing for that. Do you want to add any more, Treasurer?

Treasurer of the States:

No.

Deputy S.M. Ahier:

Thank you, Minister. Since we are very short on time now and I know you have to move on to another meeting, this is the last quarterly hearing that the panel will be holding with you. Looking back over this term of Government, what would you highlight as your greatest accomplishments within your remit?

The Minister for Treasury and Resources:

We do not have time to list them all.

Deputy S.M. Ahier:

Well, with that, I think it would be best if we close the hearing. Thanks very much indeed, Minister. Thanks very much, everyone, for attending.

The Minister for Treasury and Resources:

To bring it down, I think it was the amazing way that not just Treasury but the whole Assembly has moved with the COVID situation. I think that hit everybody from nowhere. We reacted quickly. We afforded one way or another what we did and also have updated the tax system, which was so archaic it horrified me. So the fact that we have managed ... and it has not been easy on Revenue Jersey, because of the resources that they had, to update the computer system, change the tax system from P.Y.B. (prior year basis) to C.Y.B. (current year basis) and also to bring in independent taxation from a law that was brought in in 1928. So there is a list but, in very brief terms, I think we have responded in a way that very few other jurisdictions have done, so I am very proud of the team and of being part of the Government that has been able to achieve that.

Deputy S.M. Ahier:

Thank you very much, Minister, and thank you, everyone else, for attending today.

The Minister for Treasury and Resources:

Thank you, Chair.

[10:33]